

RD AN No. 3720 (4274-D)
March 14, 2002

SUBJECT: Intermediary Relending Program
Review of Ultimate Recipient Applications

TO: State Directors, Rural Development

ATTN: Business Programs Directors

PURPOSE:

The purpose of this Administrative Notice (AN) is to emphasize and clarify the intent of Intermediary Relending Program (IRP) requirements for Rural Business-Cooperative Service (RBS) review of applications for loans from the intermediary to ultimate recipients. Business Programs Assessment Reviews (BPAR) of IRP files have revealed a considerable variation in the amount of ultimate recipient information in RBS files and a wide variation in the extent of RBS review of ultimate recipients for concurrence.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 3631 (4274-D), dated March 30, 2001.

IMPLEMENTATION:

When an IRP intermediary proposes to use RBS IRP funds (not revolved funds) for a loan to an ultimate recipient, the intermediary must obtain RBS concurrence in approval of the loan. The requirements for the information the intermediary must submit to RBS are listed in RD Instruction 4274-D, section 4274.361(b). RD Instruction 4274-D, Exhibit B, is a checklist for review of an ultimate recipient loan request. We recommend that you reproduce and complete the checklist and place it in the case file for each ultimate recipient application.

EXPIRATION DATE:
March 31, 2003

FILING INSTRUCTIONS:
Preceding RD Instruction 4274-D

The RBS review of ultimate recipient applications is intended to concentrate on a few specific items as referenced in RD Instruction 4274-D, section 4274.361(c). The intermediary is responsible for determining eligibility, credit quality, and loan documentation.

The most extensive portion of the RBS review should normally be the environmental review. We do not have authority to delegate the responsibilities placed on us by the National Environmental Policy Act. As the responsible RBS official, you must conduct a complete environmental review in accordance with RD Instruction 1940-G as if we were making the loan directly to the ultimate recipient. In order to complete the environmental review, you must obtain detailed information on the loan purpose, and we recommend you ensure that the purpose is eligible.

You are also responsible for ensuring that the intergovernmental consultation process is completed in accordance with RD Instruction 1940-J.

The intermediary must certify to five items in accordance with RD Instruction 4274-D, section 4274.361(b)(1)(i) through (v). It is your responsibility to ensure, before concurring in the loan, that the intermediary provides the certifications. It is not your responsibility to make an independent determination that the certifications are accurate. Accuracy of the intermediary's certifications may be spot-checked during annual servicing visits.

You should ensure that the intermediary is not financing more than 75 percent of the total project cost, in accordance with RD Instruction 4274-D, section 4274.331(b)(2). That was an issue in a previous audit of the program and continues to be mentioned in some BPARs.

You should monitor the intermediary's compliance with commitments made to obtain priority points, such as contribution to the revolving fund and joint financing with other lenders. It is your responsibility to ensure that such contributions are made to the revolving fund.

Unless you have identified the intermediary as a problem borrower, that is the extent of review that should be needed. When you have completed your review, you should issue a letter either stating your concurrence in the loan or denying concurrence and giving reasons and appeal rights. Before ordering additional loan funds, you should ensure that the intermediary has used or has immediate need for any funds previously drawn. For additional guidance, you should refer to RD Instruction 4274-D, section 4274.338(5).

We have found that some files lack documentation of specific material that is required; but we have also noted a tendency to obtain, file, and, presumably, review excess material. Obtaining and reviewing excess material puts an unnecessary burden on both

the intermediary and RBS staff. As indicated in RD Instruction 4274-D, section 4274.361(d), we believe all of the documentation related to one ultimate recipient should normally be filed in one position of a case file. In other words, one four-position folder should hold the material on four ultimate recipients.

If you have further questions about the review of IRP ultimate recipient loans, please contact Kenneth E. Hennings, Servicing Branch Chief, Specialty Lenders Division, (202) 690-3809.

(Signed by John Rosso)

JOHN ROSSO
Administrator